

INTERNAL REVENUE SERVICE

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The Honorable Lindsey Graham
Member, U. S. House of Representatives
5 Federal Building
211 York Street, NE
Aiken, South Carolina 29801

Attention: [REDACTED]

Dear Congressman Graham:

Thank you for your letter of October 24, 2000, on behalf of Ms. [REDACTED] and other constituents. They ask why the Internal Revenue Service has not readjusted the business standard mileage rate to reflect the recent increase in gasoline prices.

We are pleased to tell you that on November 16, 2000, the IRS announced that the business standard mileage rate will increase from 32.5 cents a mile to 34.5 cents a mile, effective January 1, 2001. The primary reason for the increase was due to the jump in gasoline prices. We hope the following information concerning the rate is helpful.

Gasoline Prices. We realize increased gasoline prices are an economic burden. However, the cost of gasoline is only one part of the business standard mileage rate, which includes fixed and operating automobile costs. These costs include depreciation (or lease payments), maintenance and repairs, insurance, and license and registration fees, in addition to gasoline and oil. Less than one-third of the business standard mileage rate comes from the cost of gasoline and oil.

Setting the Business Standard Mileage Rate. The rate is a national average determined by an annual study performed by an independent contractor who is an expert in the cost analysis of business use of automobiles. The contractor uses recent data from each state on the component costs of operating the most popular automobiles. The contractor then combines this data to achieve a national composite cents-per-mile rate.

Advantages of Using the Business Standard Mileage Rate. Reducing a taxpayer's record-keeping burden is the principal advantage of using the rate. Gasoline prices rise

and fall during the year, but taxpayers may continue to use the same rate without having to keep records of actual expenses. Although rising gasoline prices can be a disadvantage for taxpayers who use the rate, falling prices can work to their advantage. For example, although gasoline prices fell in 1998, for all of 1998 and through March 31, 1999, taxpayers were able to use the rate reflecting the earlier higher prices.

Taxpayer's Options. To deduct the ordinary and necessary expenses of using an automobile for business purposes, a taxpayer must substantiate the cost, date, place, and business purpose of each use of the automobile by adequate records. For the cost, the taxpayer has two options:

- Substantiate actual cost by keeping records (or by other sufficient evidence).
- Use the business standard mileage rate.

Using the business standard mileage rate gives approximate, not actual, costs. Taxpayers can deduct the actual business expenses of using a personally-owned automobile, which may be advantageous when automobile costs are rising. Publication 463, *Travel, Entertainment, Gift, and Car Expenses*, contains more information on how to substantiate expenses. I have enclosed the relevant pages from that publication.

I hope this information is helpful. Please call Channing Horton, Identification Number 50-03418, at (202) 622-4920, if you have any questions.

Sincerely,

Associate Chief Counsel
(Income Tax & Accounting)

By _____
Robert A. Berkovsky
Chief, Branch 2

Enclosure